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Sangamo Canada and the Energy Crunch

The candle as a source of light and heat? Perish the thought. Fortunately for Canadians we are blessed with abundant sources of power. Not so much that we can be wasteful or indiscriminate in its use but enough that, properly used and conserved we will never need to return to the candle.

Electrical energy generated from oil and gas tends to be wasteful, while power generated from water or nuclear fuel conserves oil and gas which are amongst our greatest natural resources.

We are at a turning point in the nuclear field. The success of Pickering which, in 1974 generated more electrical energy than any similar plant in the world, holds promise for Canada of a power source unmatched anywhere. Despite this, prudent energy management is of ever increasing importance if we are to leave a proper heritage to future generations.

At Sangamo, we are more conscious than most of this responsibility. For the measurement of electrical energy has been our main concern since 1913.

To achieve this end we have developed a variety of instruments such as the Kilowatt-hour meter to measure electrical consumption, the Demand meter to measure excessive loads and the var-hour meter to measure loads with undesirable power factor.

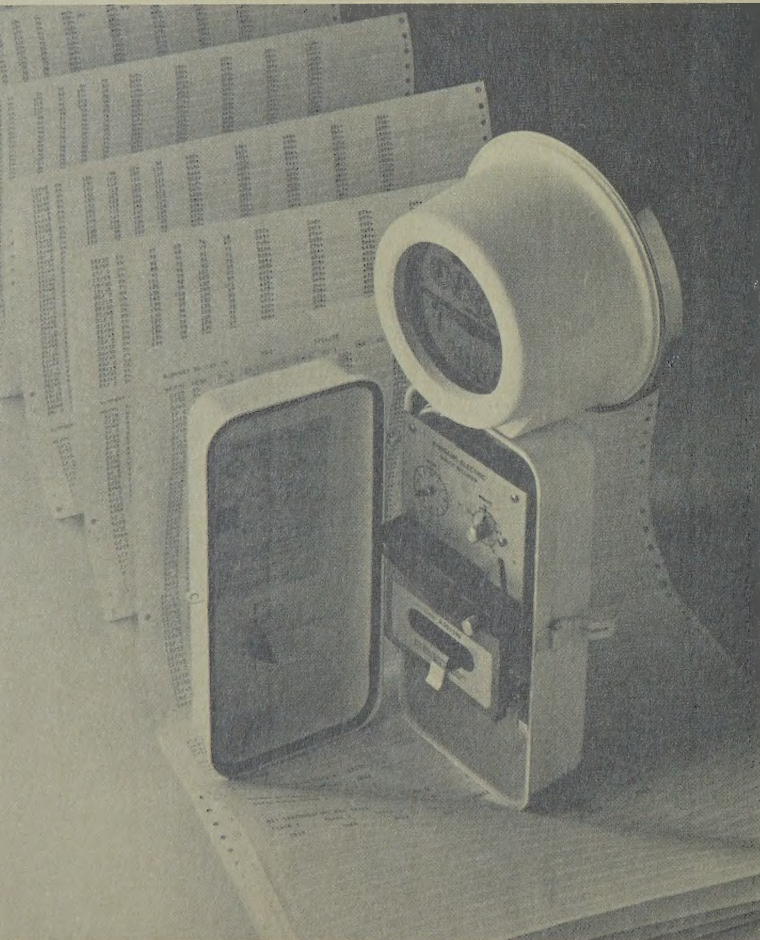
More recently, however, as electrical utility systems became more complex, there has developed an increasing need for accurate information on power usage, population growth patterns, rate structures, and the desired level of capital expenditures.

This and other information have become essential ingredients for the future expansion and better management of our electrical energy resources.

Sangamo now provides through their Information Systems Division, data recording equipment, computer processing services, and software programs to suit many of these utility requirements. In addition, Sangamo is actively promoting through its newly formed Energy Control Equipment Division, the use of peak load controllers and off peak heating systems for industrial and commercial applications.

And there will be more! Because emphasis on electrical energy management and conservation will require new products and services in the future. New meters as well as information and control systems to serve an expanding diversity of customers are already being planned at Sangamo. Our resources, skill and ingenuity are dedicated to the maintenance of leadership in the field by better serving the needs of the electrical utilities in Canada.

Sangamo Company, Limited Financial Highlights



	1974	1973
Sales	\$15,444,379	\$13,966,382
Income before extraordinary item	1,423,955	1,370,294
Income per share before extraordinary item	7.86	7.56
Net income	1,947,982	1,370,294
Net income per share	10.75	7.56
Shareholders' equity	7,027,923	5,986,001
Shares outstanding at end of period	181,212	181,212
Book value per share	38.78	33.03
Working capital	5,814,804	4,701,377
Current ratio	3.3:1	3.8:1

SR1 - M Survey Recorder - newest addition to Sangamo's data recording equipment.

Letter to the Shareholders

Net income in 1974 amounted to \$1,948,000 or \$10.75 per share and included an extraordinary credit of \$524,000 or \$2.89 per share from the sale of excess land.

Income before extraordinary item was \$1,424,000 or \$7.86 per share. Net income in 1973 was \$1,370,000 or \$7.56 per share.

Sales in 1974 were \$15,444,000 compared to \$13,966,000 in 1973. The most significant gain was realized in domestic meters where the demand continued strong throughout the year. Foreign markets for energy management products softened in the latter part of 1974 and sales of vacuum cleaner motors, radiosondes and non-manufactured products were comparable to 1973 levels.

In July, after the Company and Union representatives had reached agreement on a new labour contract, the employees at the Trois Rivières plant did not ratify the agreement and went

on strike. Although the plant was idle until early September, sales for the year were not adversely affected as customer requirements were furnished through other sources or were delivered later in the year.


One of the most important and serious problems facing Canadian manufacturers in recent years has been the spiralling cost of hourly wages. Average hourly rates in this country have been increasing more rapidly than in many other industrialized countries, particularly the United States. At Sangamo, continuing pressure for unrealistically high wage settlements has placed a very serious restriction on the potential of the export meter business.

Total capital expenditures for building equipment and tooling amounted to \$473,000 in 1974 and were made to ensure continued high quality production together with improved productivity of the Company's products; \$315,000 was provided for depreciation.

The Company paid cash dividends of \$5.00 per share in 1974 consisting of four quarterly dividends of \$.75 each and a year-end extra dividend of \$2.00.

The Directors and Officers wish to express their appreciation to those loyal employees who worked effectively to bring the Company a very successful year.

Respectfully submitted.


A. E. VAN CLIEAF,
President

March 21st, 1975

Sangamo Company, Limited (Incorporated under the laws of Canada)

ASSETS	1974	1973
Current:		
Cash and short-term notes	—	\$ 411,963
Accounts receivable	\$ 2,474,994	2,045,602
Inventories (note 1(a)) –		
Raw materials, work in process and finished parts	4,423,479	3,050,060
Finished goods	1,392,021	809,644
	<u>5,815,500</u>	<u>3,859,704</u>
Prepaid expenses	65,125	64,117
Total current assets	<u>8,355,619</u>	<u>6,381,386</u>
Fixed, at cost (notes 1(b) and 3):		
Land	45,173	231,528
Buildings, machinery and equipment	6,228,362	5,796,576
	<u>6,273,535</u>	<u>6,028,104</u>
Less accumulated depreciation	4,471,283	4,197,152
	<u>1,802,252</u>	<u>1,830,952</u>
Other:		
Tender and performance bonds	209,549	255,875
Unamortized debenture discount	25,318	33,797
	<u>\$10,392,738</u>	<u>\$8,502,010</u>

(See accompanying notes to financial statements)

On behalf of the Board: **R. H. DAVIES**, Director
A. E. VAN CLIEAF, Director

Balance Sheet

DECEMBER 31, 1974 (with comparative figures at December 31, 1973)

LIABILITIES

	1974	1973
Current:		
Bank indebtedness	\$ 783,370	\$ 150,000
Accounts payable and accrued charges	1,307,310	1,135,761
Income taxes payable	161,051	258,629
Payable to affiliated companies	289,084	135,619
Total current liabilities	2,540,815	1,680,009
 6% Secured Sinking Fund Debentures, Series "A" due December 15, 1982 (note 3)	 498,000	 547,000
Deferred income taxes (note 1(c))	326,000	289,000
 Shareholders' equity:		
Capital –		
Authorized:		
200,000 common shares of no par value		
Issued:		
181,212 common shares	505,135	505,135
Retained earnings	6,522,788	5,480,866
	7,027,923	5,986,001
	\$10,392,738	\$8,502,010

Statements

Statement of income YEAR ENDED DECEMBER 31, 1974

(with comparative figures for the year ended December 31, 1973)

	1974	1973
Net sales	\$15,444,379	\$13,966,382
Less:		
Cost of sales excluding depreciation	11,194,356	9,895,352
Selling, general and administrative expenses	1,498,990	1,394,565
Depreciation	315,196	273,353
Interest on funded debt	31,431	33,071
	13,039,973	11,596,341
Operating income	2,404,406	2,370,041
Other income	95,549	44,253
Income before income taxes and extraordinary item	2,499,955	2,414,294
Income taxes	1,076,000	1,044,000
Income before extraordinary item	1,423,955	1,370,294
Extraordinary item:		
Gain on sale of Scarborough property,		
less applicable income taxes of \$53,750	524,027	—
Net income	\$ 1,947,982	\$ 1,370,294
Earnings per share:		
Income before extraordinary item	\$ 7.86	\$ 7.56
Net income	\$ 10.75	\$ 7.56

(See accompanying notes to financial statements)

Statement of retained earnings YEAR ENDED DECEMBER 31, 1974

(with comparative figures for the year ended December 31, 1973)

	1974	1973
Retained earnings, beginning of year	\$ 5,480,866	\$ 4,563,602
Net income	1,947,982	1,370,294
	<u>7,428,848</u>	<u>5,933,896</u>
Dividends paid	906,060	453,030
Retained earnings, end of year	<u>\$ 6,522,788</u>	<u>\$ 5,480,866</u>

Statement of changes in financial position YEAR ENDED DECEMBER 31, 1974

(with comparative figures for the year ended December 31, 1973)

Source of funds:

Income before extraordinary item	\$ 1,423,955	\$ 1,370,294
Adjustments for items which did not involve an outlay of funds –		
Depreciation	315,196	273,353
Deferred income taxes	37,000	72,000
Amortization of bond discount	8,479	6,598
Funds from operations	<u>1,784,630</u>	<u>1,722,245</u>
Decrease (increase) in tender and performance bonds	46,326	(50,000)
Proceeds on disposal of land, less applicable income taxes of \$53,750	710,382	—
	<u>2,541,338</u>	<u>1,672,245</u>
Application of funds:		
Payment of dividends	906,060	453,030
Additions to fixed assets	472,851	452,309
Redemption of Sinking Fund Debentures	49,000	12,000
	<u>1,427,911</u>	<u>917,339</u>
Increase in working capital	1,113,427	754,906
Working capital, beginning of year	4,701,377	3,946,471
Working capital, end of year	<u>\$ 5,814,804</u>	<u>\$ 4,701,377</u>

(See accompanying notes to financial statements)

Notes to financial statements

DECEMBER 31, 1974

1. Summary of accounting policies

(a) Inventories are valued at standard cost, which approximates current average cost and is lower than market. Market is defined as replacement cost for raw materials and net realizable value for work in process, finished parts and finished goods.

(b) Depreciation is calculated using the straight-line method applied to the estimated useful life of assets. Buildings have an estimated useful life of forty years; machinery and equipment of a general nature have an estimated service life of ten and fifteen years; and, tools and dies have an estimated service life of three years.

(c) Deferred income taxes are provided on all non-permanent differences between reported and taxable income. These differences relate principally to the excess of tax depreciation over depreciation reflected in the financial statements.

(d) Research and development expenditures are charges against income as incurred.

2. Legal suit

An action has been brought against the Company on behalf of the former employees of the Guelph plant for payment of the unfunded pension liability, at the date of termination of the plan, of \$650,000, plus damages of \$365,911, plus costs. In the opinion of counsel, the Company should be successful in its defence against this action and accordingly, no provision has been made at December 31, 1974 for such liability, if any, as may arise therefrom.

3. Sinking Fund Debentures

The debentures are secured by a specific charge on the fixed assets (except those assets situated in the Province of Quebec) and a floating charge on all other assets of the company.

All sinking fund requirements through to the date of maturity of the 6% debentures have been met and accordingly, no further principal amounts are payable until that date.

4. Remuneration of directors and officers

The following information is provided as required by Section 122.2 of the Canada Corporations Act:

(a) Remuneration paid to seven directors, as directors, totalled \$7,500 in 1974 and \$7,500 in 1973;

(b) Remuneration paid to seven officers, as officers, totalled \$205,911 in 1974 and \$201,738 in 1973 for six officers;

(c) One officer of the Company is also a director.

Auditors' Report

**To the Shareholders of
Sangamo Company, Limited:**

We have examined the balance sheet of Sangamo Company, Limited as at December 31, 1974 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Sangamo Company, Limited as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young, Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada, February 5, 1975.

DIRECTORS

R. H. DAVIES

President
Sangamo Electric Company
Chairman of the Board
Sangamo Company Limited

C. H. LANPHIER

Chairman of the Board
Sangamo Electric Company

J. A. McDOUGALD

President and Chairman of the Board
Argus Corporation Limited

ANDRÉ MONAST, Q.C.

Partner
St-Laurent, Monast, Desmeules & Walters

J. M. TORY, Q.C.

Partner
Tory, Tory, DesLauriers and Binnington

C. E. VANCIL

Executive Vice-President and Treasurer
Sangamo Electric Company

A. E. VAN CLIEAF

President
Sangamo Company Limited
Vice-President and General Manager
Power Equipment Division
Sangamo Electric Company

OFFICERS

A. E. VAN CLIEAF, *President*

W. B. BALL, *Vice-President, Sales*

V. E. DICKSON, *Vice-President, Engineering*

P. GREIG, *Vice-President, Marketing*

J. LOGAN, *Vice-President & Secretary-Treasurer*

M. R. SABISTON, *Vice-President & General Manager*

SHARES LISTED

The shares of the Company are listed on the Montreal Stock Exchange, Montreal, Quebec. Transfers of shares at the Head Office of the Company, Toronto.

ANNUAL MEETING

Annual Meeting of the Shareholders is to be held on April 24th, 1975, at the Head Office of the Company, 215 Laird Drive, Toronto, Ontario M4G 3X1